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# 2002 ANNUAL REPORT



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## To Friends of the North Carolina Railroad Company,

The year 2002 saw the North Carolina Railroad Company move forward with a slate of projects carefully selected to improve the railroad. Continuous welded rail was brought in to enable freight trains from Raleigh east to operate at speeds comparable to the rest of the track. The strategy here is two-fold: to enhance the attractiveness of eastern North Carolina as a place to locate or increase service to rail-served industries and to put in place the quality of rail that could, one day, accommodate commuter trains.

Meanwhile, to the west, improvements begun in 2001 were completed this year, allowing Amtrak passenger trains to increase speeds from 45 mph to 60 mph along the CSX tracks and in the NCRR corridor west of Raleigh. Between Durham and Charlotte, train speeds increased from between five and 44 mph, depending on the stretch of track involved. This eliminated approximately 10 minutes from the trip between these two cities. Although that seems a small amount of time, improvements have to be made incrementally as NCRR funds become available. As more improvements are completed, rail travel could be a viable and sensible transportation alternative for travelers.

Progress was made on our two bridge projects, one that spans the Neuse River near Kinston and the other that spans Highway 54 in Research Triangle Park. The Neuse Bridge is an important part of the improvements we're making in eastern North Carolina, allowing today's heavier, faster rail cars to operate over the track. The bridge replacement will align with the welded rail to make for a faster, smoother track from Raleigh to the Port at Morehead City. The new bridge will be completed in 2003.

The Highway 54 Bridge, now in design and pre-construction stages, will allow the NC DOT to widen Highway 54 several years earlier than would otherwise be possible. This project also enables TTA to proceed with plans for a commuter rail system, part of which will operate in the NCRR corridor. In addition to accommodating both freight and passenger service, the new bridge will solve a serious bottleneck that has plagued the Park for more than a decade, strangling growth, backing up vehicular traffic and causing trucks to be re-routed around the bridge.

Two revitalization projects, the Burlington Engine House and the Raleigh Depot, were undertaken to spark urban renewal efforts and to preserve the unique historical footprint that is NCRR's heritage in a way that is relevant once again in today's cities. 2003 will see both of the buildings occupied by tenants whose presence will bring both people and commerce to once dormant locations.

As 2002 drew to a close and 2003 began, the NCRR Board of Directors announced the approval of \$24.5 million in rail infrastructure capital improvements. The three key projects will result in the installation of continuous welded rail on NCRR's main line, provide approximately six miles of double track for increased capacity between Raleigh and Goldsboro, and electronically signalize the railroad on the same stretch. Such signals improve speed and reliability and allow the track to carry more trains, both freight and passenger. Funds for the project come from rent paid to NCRR by Norfolk Southern Railway Company for use of the NCRR line.

As we move forward into 2003, NCRR faces new challenges and opportunities. We are charged with improving a 317-mile corridor with limited financial resources. We are assisting communities east of Raleigh in exploring the feasibility of operating commuter service on parts of the NCRR corridor. We are investigating the best and wisest uses of our various non-operating properties. We must identify and legitimize hundreds of encroachments along the corridor. To do these and other tasks, we will remain proactive, not reactive. We will continue with our slate of projects in 2003, and with our commitment to keeping progress on the right track.

Regards,

J. Bradley Wilson  
Chairman of the Board

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*The photo on the cover is of the Neuse River Bridge near Kinston, NC. Photographer Simon Griffiths captured the elegance of the old truss structure on a foggy Autumn morning in 2002.*



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**The mission of the North Carolina Railroad Company:  
To manage, improve and protect the State of North Carolina's  
rail properties and corridors in a manner that will enhance  
passenger and freight service and promote economic development.**



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*Welded Rail Train putting out rail for improvements near and through Kinston.*

Welcome to the Annual Report of 2002 for the North Carolina Railroad Company, the state's oldest corporation. The following pages will show you the company's goals and the progress it is making in achieving them. NCRR serves a key role in the state's freight and passenger train service, in its overall transportation infrastructure and as a catalyst to attract industries, jobs and businesses to North Carolina. We are making North Carolina the "State of the Railroad."

In 2002, with a lucrative rental agreement from Norfolk Southern and revenue up, NCRR put its Corridor Improvement Plan into high gear. Ten minutes were shaved from the trip between Durham and Charlotte, 22 minutes from the trip between Cary and Greensboro, speed increases now allow passenger and freight trains to move faster between Raleigh and Selma, and continuous welded rail was installed between Kinston and the Neuse River bridge, connecting the higher quality rail to that installed in 2001. Centralized traffic control and double tracking between Raleigh and Greensboro will increase speeds for both freight and passenger traffic. Curve work will allow trains to go even faster between Greensboro

and Charlotte. Upgrading and siding extensions in McLeansville, Mebane and points east will allow trains to pass one another more easily, creating much needed railroad "bandwidth." Track upgrades between Goldsboro and Morehead City are now complete. Connections are being upgraded between Greensboro and Durham for higher speeds.

*There are eight Class 1, 34 Regional, two Foreign and 529 Local railroads in the United States for a total of 573 (freight) railroads. Combined, they cover 143,361 miles; North Carolina has 3,251 miles of track. The railroads employ 184,360 workers—2,438 in North Carolina— and produce revenues of 36,578.8 million dollars.*

Railroad Facts, 2002 edition



*The NCRR objective: for the railroad to carry more trains, more people and products, faster, more safely and smoothly than ever before in its history.*



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*Glenn Hartsoe, Consultant and First Chief NCRR Engineer in more than 100 years.*

*These major improvements to the NCRR, both east and west of Raleigh, should send a positive message to local governments, industry and development agencies that NCRR has taken a proactive role in improving freight and passenger rail service in the state. The NCRR plans to continue to replace rail, straighten curves, lengthen sidings and improve signals and bridges, all of which will facilitate more efficient and reliable train operations.*

Glenn Hartsoe



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*The American Bridge Company of New York built the original Neuse River Bridge in 1905.*

Work on the two bridge projects in the Corridor Improvement Plan got underway in 2002. The Neuse River Bridge project near Kinston will feature a new through plate girder bridge to replace the old truss span. This is a stronger design that eliminates height restrictions and can carry today's faster, heavier railcars. Because of its uniqueness, the bridge was the focus of a photographic project to record the company's ongoing history. Although not as picturesque as the images here and on the cover of this report, the new bridge will be beautiful for the state's economy as it helps to attract new industry or a new plant that brings jobs and income to eastern North Carolina.

The Highway 54 Bridge was built when Research Triangle Park was only cow pasture and pine forest. The new bridge will replace an existing single-track railway bridge with a double track bridge and adjacent siding to allow for both freight and future local transit use. This part of the corridor is designated for both regional passenger rail and high-speed service. A pedestrian access and bike lane are also part of the plan. The improvement is crucial to alleviate a frustrating bottleneck and allow Highway 54 to be expanded to five lanes. Unless this change is made, the road will keep strangling growth and development in RTP. NCRR's decision to make this a high priority project makes it possible for NCDOT to

widen the road below the bridge four years ahead of schedule. The Research Triangle Foundation and its developer can then proceed with work on the first residential project to be located inside Research Triangle Park. NCRR has limited funds to reinvest in infrastructure and this project is typical of ones the company chooses because of its importance to the state and the regional economy as well as to both freight and passenger transportation. Construction is slated to start in 2003.



*NCRR President Scott Saylor and WRAL-TV reporter Mark Roberts at the Highway 54 Bridge.*

## A WELL-ENGINEERED PAST

From John Motley Morehead's vision of a statewide railroad that could open up the state to bigger markets to Sam Hunt, who engineered lease negotiations with Norfolk Southern and oversaw the establishment of these permanent headquarters, NCRR has benefited from leaders developing a mission and vision for the company.

In William Powell's book, *North Carolina Through Four Centuries*, the railroads' role as an economic savior to the state is made clear. "In an attempt to overcome geographic isolation and economic inferiority, the North Carolina General Assembly plunged into railroad construction in the 1850s. Through the efforts of state and private subscriptions 900 miles of railroad were built by 1861. The North Carolina Railroad, chartered in 1849 and completed in 1856, was the most important railroad because it connected the coastal plains to the Piedmont. The road originally ran from Goldsboro to Charlotte (today, it runs from Morehead City to Charlotte), and served as an early architect of the urban Piedmont Crescent that transformed the state's economy."

*I fully believe if we had a railroad or a turn pike road from the flour countys to market, we would soon make a little Baltimore for flour.*

E.M. Holt, 1838 Alamance County textile magnate and early supporter of a state railroad

Today, the NCRR Board, management and staff are focused once again on the potential of the railroad as an industrial and economic development engine for North Carolina. The company works closely with the Governor, the General Assembly and business and industry partners to make rail and property services work to improve the state's economic climate.

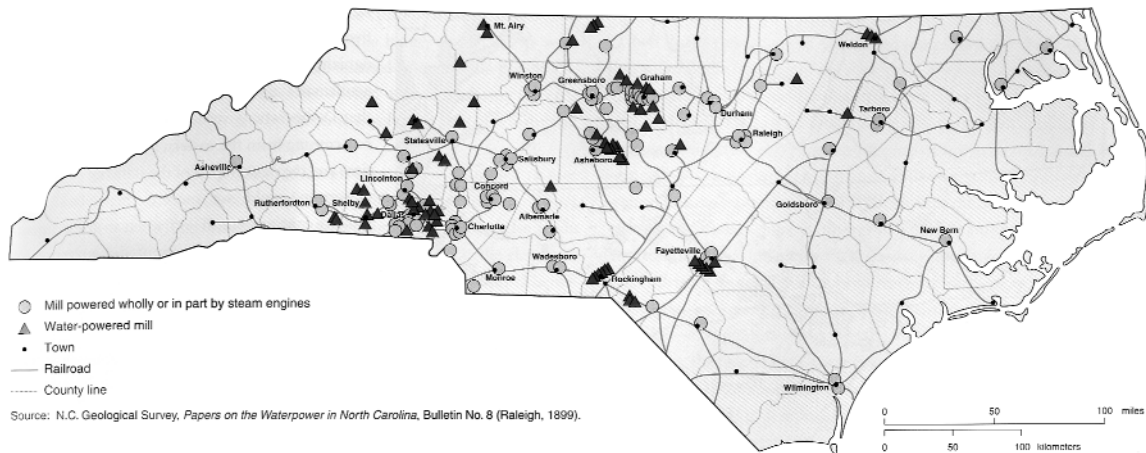
Developing quality rail will provide North Carolina with a balanced transportation system comprised of highways, airports, two ports and a passenger and freight rail system.

## PAST PRESIDENTS OF THE NCRR

John M. Morehead	1850-1855
Charles F. Fisher	1855-1861
Paul C. Cameron	1861-1862
Thomas Webb	1862-1865
Josiah Turner	1867-1868
William A. Smith	1868-1873
Thomas M. Holt	1873 (May-September)
William A. Smith	1873-1877
Col. Thomas A. Holt	1877-1891
William F. Kornegay	1891-1894
Lee S. Overman	1894-1895
S.B. Alexander	1895-1897
Dr. R.M. Normant	1897-1899
J.S. Armstrong	1899-1901
Hugh G. Chatham	1901-1909
Maj. Charles M. Stedman	1909-1911
Bennehan Cameron	1911-1913
Wade E. Wood	1913-1929
Mrs. T.W. Bickett	1929-1933
Mrs. Charles B. Aycock	1933-1937
V.D. Guire	1937-1938
D.W. Royster	1938-1939
Alvah Early	1939-1940
D. Hiden Ramsey	1940-1941
Dr. W.B. Hunt	1941-1942
D. Newton Farnell, Jr.	1942-1943
Gov. Wilkens P. Horton (ex)	1943-1944
Dr. Harry L. Riddle	1944-1945
Henry A. Dennis	1945-1946
B.E. Jordan	1946-1947
L.B. Hollowell	1947-1948
Joseph T. Carruthers, Jr.	1948-1949
C.A. Fink	1949-1951
Ralph A. Scott	1951-1952
Ralph Fisher	1952-1953
Thomas W. Bird	1953-1954
J. Bobo Langston	1954-1955
John M. Morehead	1955-1964
Van Wyck Webb	1965
John M. Alexander, Sr.	1965-1973
George T. Clark	1973-1977
John M. Alexander, Sr.	1977-1985
Robert T. Brown	1985-1987
E. Stephen Stroud	1987-1993
John F. McNair, III	1993-1996
Sam Hunt	1996-2002
J. Bradley Wilson	2002-present
Chairman of the Board	



Location of Cotton Mills, 1899



*Historic Map showing how industry has developed statewide along the NCRR corridor.*

Source: NC Geological Survey, *Papers on the Waterpower in North Carolina, Bulletin No. 8* (Raleigh, 1899)

## PARTNERS FOR PROSPERITY

Much like the development of the state's university system, construction of the NCRR moved the state into an era of modern growth and commerce. Today, that role is still critical as the company partners with private and public leadership to develop new and better travel alternatives and to expand industries served by freight rail.

*In 1929 freight trains averaged 47.6 cars and the average length of haul was 334.1 miles; in 2001 freight trains averaged 68.5 cars with an average length of haul at 858.5 miles. The average freight train carried 3,005 tons of freight in 2001, the highest level ever recorded.*

Railroad Facts, 2002 edition

Norfolk Southern remains NCRR's most significant partner, paying annual trackage fees of approximately \$11 million to use part of the corridor as a main line. Norfolk Southern is responsible for operating and maintaining the track and the two companies work in partnership on a number of projects to the benefit of both freight and passenger service along the corridor. Whenever possible,

NCRR is assisting Norfolk Southern's new East Carolina Business Unit by meeting clients with them and assuring these clients of our commitment to improve the railroad. This fall the Board met at Goldsboro Milling, one of Norfolk Southern's biggest industries on the NCRR.



*Goldsboro Milling is a large agricultural-based industry that is served by Norfolk Southern on the NCRR corridor in eastern North Carolina.*

History played a part in the present and future once again as CSX and NCRR resolved a 140-year old ownership dispute last year. Under the settlement, NCRR will be acknowledged by CSX as the owner of the corridor in exchange for CSX's continued use. CSX and Amtrak both



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*Ringling Brothers Barnum and Bailey Circus uses a CSX train shown here on the NCRR corridor to transport its performers, including elephants.*

use this portion of the NCRR corridor. Triangle Transit Authority also plans a part of its regional route along the NCRR right-of-way.

On April 25, 2002, NCRR and the Triangle Transit Authority reached a definitive agreement on TTA usage of 27 miles of the NCRR right-of-way for public transit purposes for a period of fifty years. The agreement allows for the design, construction, operation and maintenance of the TTA Phase I Regional Rail Project between downtown Raleigh and the city of Durham.

In a partnership that is unique nationwide, NCRR and the North Carolina Department of Transportation work together, along with Norfolk Southern, to improve stations, track, crossings, bridges and other infrastructure along the corridor. Current plans call for super-elevation of tracks on about 35 curves and installation of new double tracks in four locations between Greensboro and Charlotte; signal and siding improvements and the straightening of curves between Raleigh and Greensboro that could shave 20 minutes off of travel time; and track upgrades between Raleigh and Selma that allow for a 10

*This is a very positive achievement and a moving to fruition of a regional rail system for the Triangle. Much remains to be done, but the partnership created by this agreement represents a major milestone.*

William V. Bell, Chairman of the TTA Board of Trustees and Mayor of Durham

mph speed increase. Crossing closings and improvements made possible by NCDOT, a national leader in crossing safety, contribute to improvements in encounters between vehicle traffic and trains. Work on several stations, including Selma, High Point and Burlington, benefits passenger service. Additionally, Norfolk Southern, NCDOT and NCRR management give industry reports and presentations on the unique aspects of public-private railroad partnerships and on operating passenger and freight service on one railroad to a statewide, regional and national audience.



*Scott Saylor was a presenter at the Railway Age magazine convention, along with Larry Etberton of Norfolk Southern and Paul Worley of NC DOT.*

Amtrak currently operates all passenger service in North Carolina, including Charlotte to Raleigh, under an agreement with NCDOT and Norfolk Southern. It operates eight passenger trains daily on parts of the NCRR corridor.

To support high speed rail from Washington DC to North Carolina, to support local transit efforts such as Charlotte Area Transit System, to support regional commuter efforts such as EastRail, to trim enough time off of

*A locomotive is a power unit vehicle that does not carry passengers that is used to pull or push commuter rail passenger coaches. Most locomotives use diesel fuel or are powered by overhead wires or are powered by a third electrified rail. A small number are dual-mode and can operate as either a diesel or electric vehicle. A heavy rail car has motive capability, is driven by electric power taken from a third rail or, rarely, overhead wires, and is usually operated on exclusive right-of-way. A light rail car has motive capability, is usually driven by electric power taken from overhead lines, and usually operates much or all of its route on non-exclusive right-of-way.*

Railroad Facts, 2002 edition

the Raleigh to Charlotte commuter service to make it a viable choice will all take careful stewardship of the limited NCRR resources that are available. It's a challenge we believe will help our state compete in an ever-more crowded global market by bringing industries, businesses and jobs. It will also provide an alternative to the state's over-burdened highway system for regional and local passenger travel.

As rail traffic increases and highway congestion builds, safety remains an important issue for NCRR. Working with Operation Lifesaver, NCRR produced a Public Service Announcement with Ron Francis of the Carolina Hurricanes. As the hockey team made it into the Stanley Cup Finals, the PSA frequency was increased and additional spots were played statewide to capitalize on the Hurricane-mania that was prevalent. NCRR and Operation Lifesaver thank Ron Francis for his generous donation of time and talent.

*Since 1980 (the year the Staggers Act partially deregulated the rail industry), the number of train accidents per million train-miles has fallen 63 percent. This date includes all United States railroads—Class 1 Freight, non-Class freight and passenger.*

Railroad Facts, 2002 edition

Safety on the corridor took on new implications after September 11 and the onset of war in Iraq. Railroads, as an integral part of the national transportation infrastructure, have experienced heightened security alerts. The NCRR line provides key rail access to three major U.S. Military installations. Threats from outside forces have resulted in an industry-wide awareness of the need for strategic safety plans and vigilance. NCRR has consulted national, regional and local intelligence networks and agencies for input and maintains contact with key representatives. The nation's railroads, including NCRR, remain responsive to any heightened alert level. As military trains were assembled throughout the state in preparation for the Iraqi encounter, security remained a top-of-desk issue. The importance of the nation's rail network to national security was highlighted as military equipment was transported to ports and airfields by rail.



## ARCHIVES AND RECORDS

In addition to restoring value to its properties and improving the corridor, NCRR values its past. The restoration of a painting removed from the New Bern Depot was returned to the town fully restored. The painting is stored at Tryon Palace's Academy Gallery and will eventually hang in its original location in the New Bern depot once renovations there are complete.

An Oral History Project is underway to help preserve not just the material artifacts but also the human culture of the company. In its earliest stages, staff will interview, record and photograph people who have "tales to tell" about NCRR. Nellie Chadwick, pictured here, is 100 years. In 1900, when her father opened a store in New Bern, there were 8,000 cars in America and about 10 miles of concrete road. She reports that the railroad was his lifeblood; all of the store's merchandise arrived by rail. The goal of the long term project is to provide an institutional memory to assist in future corporate planning as well as to record a significant history.



*Nellie Chadwick, a participant in NCRR's Oral History project, is pictured here in December 2002 with NCRR Public Affairs Director Kat Christian and Archivist Keri Toverly.*

## ENVIRONMENTAL POLICY

NCRR, Norfolk Southern and NCRR's other licensees are responsible with compliance for state, federal, local or other provisions relating to the discharge of materials or the protection of the environment. The risk of incurring environmental liability is inherent to conducting railroad

operations. Some of the commodities that are transported over the railroad lines are classified as hazardous materials. Environmental problems may exist on properties owned by the railroad which are known by the encroachers or former tenants but which have not been disclosed to the NCRR. State and federal environmental provisions may impose joint and several liability upon the railroad and its lessees and sub-lessees for environmental damage or clean up (or associated costs) of any real properties owned by the railroad and adjoining properties if the source of any problem is the property of NCRR. NCRR believes that damage or clean up (or associated costs) is the responsibility of the lessees and any sub-lessees or other parties who may have created any actionable environmental condition.

The 1999 Trackage Rights Agreement with Norfolk Southern contains extensive provisions governing the rights and obligations of the parties for various environmental liabilities and expenses.

NCRR has conducted most of the Phase I Environmental assessments required under the 1999 Trackage Rights Agreement with Norfolk Southern. Only one was required in 2002. A few of the assessments indicate the possibility of environmental contamination and will need further attention. These problems include underground storage tanks and remnants of former tenancies, including scrap yards and industrial facilities.

## COMMERCIAL PROPERTIES

In addition to its rail franchise, NCRR is a unique real estate company. During the hundred years when the corridor was largely ignored, parking lots, utilities and fences crept onto the 200-foot right of way. Documenting and legalizing these encroachments—including many by the Department of Transportation—is a huge job. As of January 9, 2003, the Property division has completed 308 agreements consisting of land, wires and pipes, right of entry, parking lots and structures. Two hundred and seventy five more agreements of the same type are under negotiation.

In 2002, revenue from land, wires, pipes, parking lots and structures exceeded \$770,000.

NCRR's Property Department also oversees the revitalization of assets in Raleigh, Burlington, Selma and High Point that were once depots. These properties—including the completion in a few months of the only remaining building from NCRR's Company Shops in Burlington—are located in areas that will further enhance community



initiatives for new urban design and redevelopment. When finished, the projects will house a mix of tenants and, in many cases, will once again serve as passenger stations for the communities in which they are located.

### Company Shops Station

The only building remaining from NCRR's original Company Shops complex, this Burlington building is nearing completion of the renovation process and is slated for occupation in June of 2003. The Burlington Police Department will lease most of the building, the trackside portion will serve as an Amtrak passenger station and NCRR is planning a company exhibit in the building lobby.



*Burlington Company Shops Station, during the revitalization process. The restored building will open June 1, 2003.*

### Raleigh Depot



*Renovations are underway at the Raleigh Depot with a completion date of late 2003.*

Progress continues in renovation efforts of this 1910 structure that originally served as the freight depot for Southern Railway. It is slated for occupation in late 2003 and a nationally acclaimed restaurateur has signed on as a tenant.

### Selma Station

Renovation of this structure, built in 1924, was completed in November 2002. Funded by State and federal grants, it serves once again as an Amtrak passenger station where the Norfolk Southern and CSX Freight lines meet.

NCRR has acquired additional commercial and industrial properties with development potential. These range from small parcels to 70+ acre-sites with access to rail facilities. Their economic and industrial development potential—as well as putting together other assemblages with partners such as Norfolk Southern, the North Carolina Department of Commerce and private developers—is exciting and could mean jobs and greater prosperity for the state.



*The Selma Depot was completed and opened for use in 2002.*

*The restoration of the Depot has been an aim of the town for a number of years. It is the cornerstone of the town's revitalization.*

Jeffery C. White, Town Manager, Selma

# BOARD OF DIRECTORS

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Executive and Policy Planning Committees

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Vice Chairman  
Rocky Mount, NC  
President, Wildwood Lamps and Accents  
Executive and Policy Planning Committees

Robert F. Bleecker  
Vice President  
Red Springs, NC  
President of Bleecker Olds, Buick, GMC, Inc. and Bleecker GMC Trucks and Superstore  
Executive, Property Management and Corridor Management and Community Relations Committees

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Secretary  
Raleigh, NC  
Is with the firm of Taylor, Penry, Rash & Rieman, PLLC  
Executive, Property Management, Audit, Budget and Personnel and Policy Planning Committees

David T. Woodard  
Treasurer  
Raleigh, NC  
General Agent for Union Central Financial  
Executive, Property Management, Audit, Budget and Personnel, Corridor Management and Community Relations and Policy Planning Committees

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Charlotte, NC  
Attorney with James McElroy & Diehl  
Audit, Budget and Personnel, Corridor Management and Community Relations and Policy Planning Committees

Christie S. Cameron  
Raleigh, NC  
Clerk of the North Carolina Supreme Court  
Corridor Management and Community Relations and Policy Planning Committees

Thomas P. Dillon  
Monroe, NC  
President and General Manager of Monroe Hardware Company, Retired  
Audit, Budget and Personnel, Corridor Management and Community Relations Committees

Robert W. Griffin  
Kinston, NC  
Principal in the law firm of Griffin and Griffin, Attorneys  
Property Management, Audit, Budget and Personnel and Policy Planning Committees

Sam Hunt  
Burlington, NC  
Owner, Hunt Electric Supply and Atlas Electric Supply  
Immediate Past Chairman

Margaret Kluttz  
Salisbury, NC  
Manager of MHK Consultants  
Corridor Management and Community Relations and Policy Planning Committees

Frederick Kenneth Ruffin  
Durham, NC  
Retired, US Air Force  
Property Management, Corridor Management and Community Relations Committees

Sharman Thornton  
Charlotte, NC  
McDonald's Corporation (formerly)  
Property Management, Audit, Budget and Personnel Committees



*NCRR Board member Margaret Klutts with TTA General Manager John Claflin and TTA Board member and Durham Mayor, William Bell.*



*NCRR Board members Sam Hunt, Christie Cameron and William Kinbeloe inspect progress on the Company Shops Station redevelopment project in Burlington, NC.*

## MANAGEMENT AND STAFF

Scott M. Saylor, President

Kathy Daniels, Executive Assistant

Kat Christian, Public Affairs Director

### *Property Department*

J.L. Skip Browder, Property Manager

Justin Madigan, Assistant Corridor Manager and Information Technology

Donna Hudgins, Assistant Property Manager

Keri Towery, Archivist/Records Management

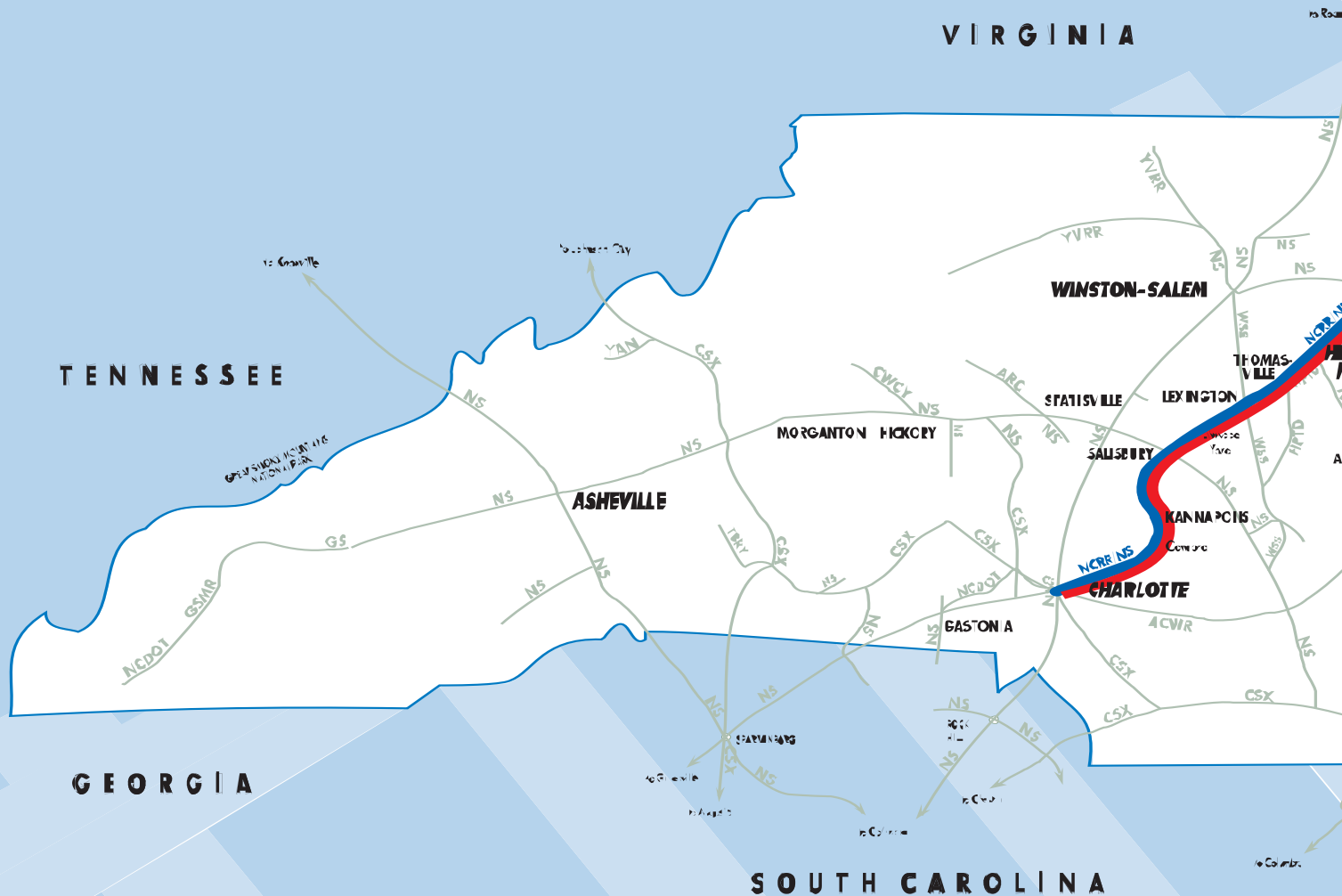
### *Accounting and Capital Budgeting*

Dan Halloran, Assistant Vice President and Controller

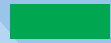






Nancy Pickett, Office Manager

Glenn Hartsoe, Consulting Engineer

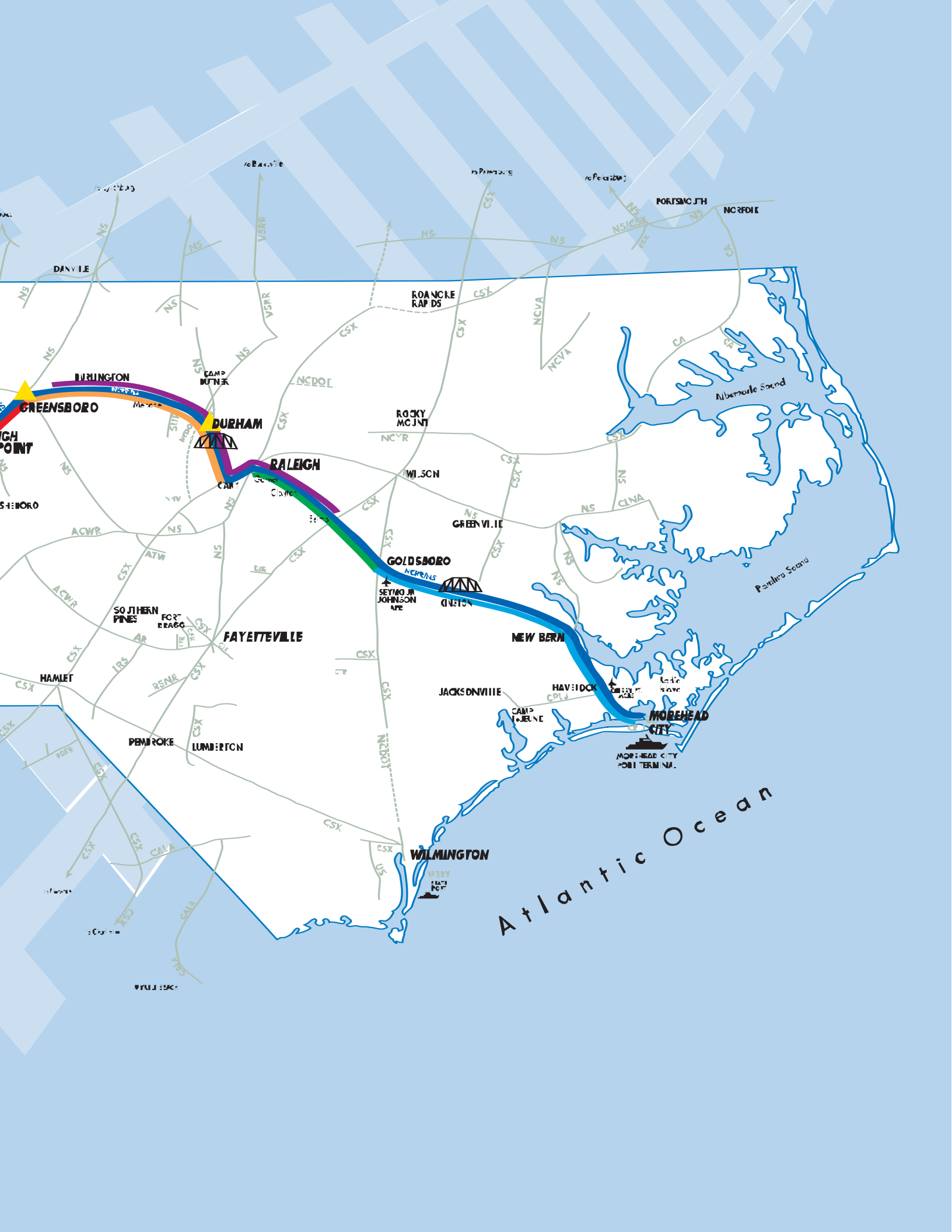
# North Carolina Railroad Company Corridor Improvement Projects 2002-2005



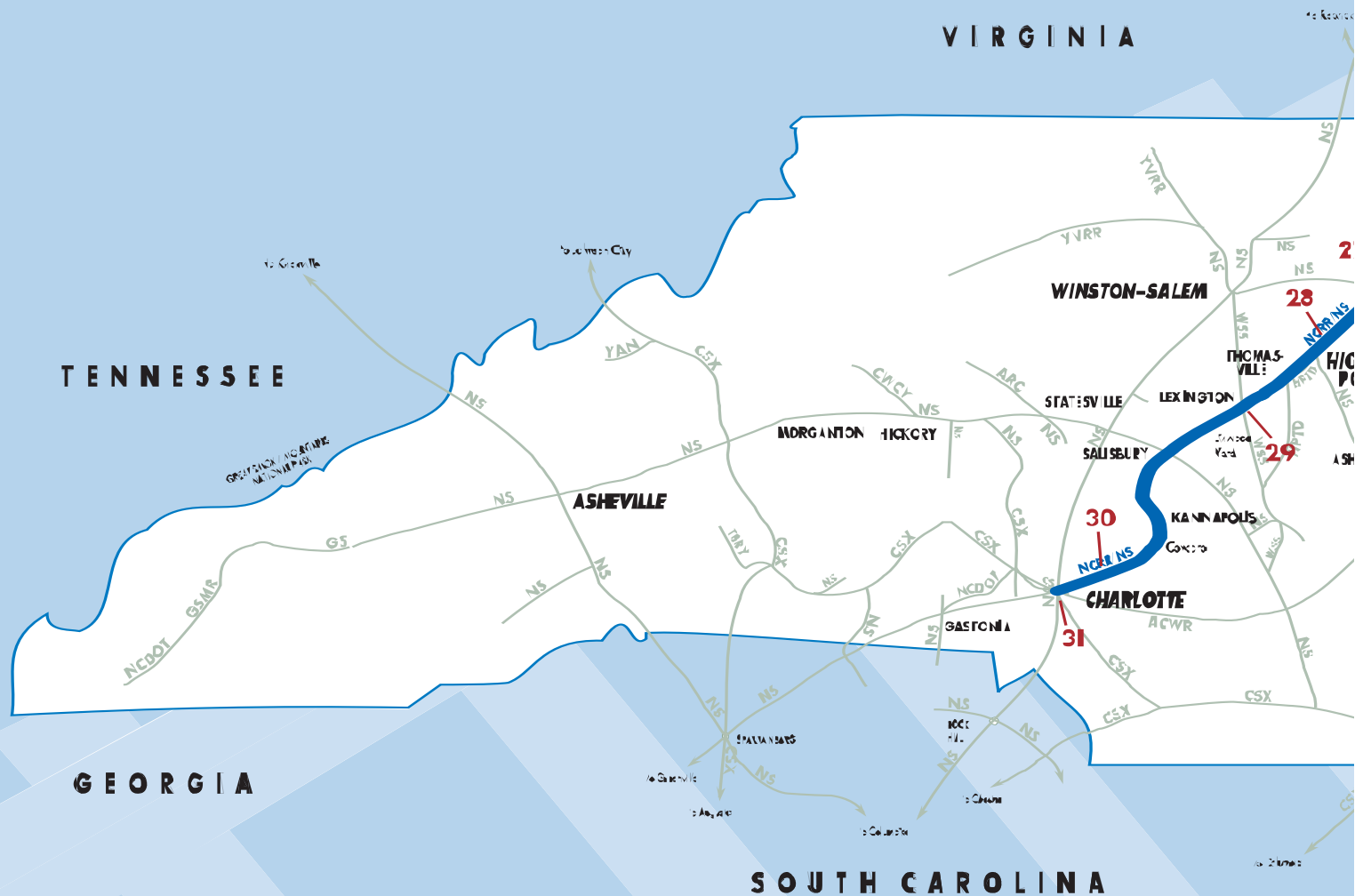
## Improvement Projects

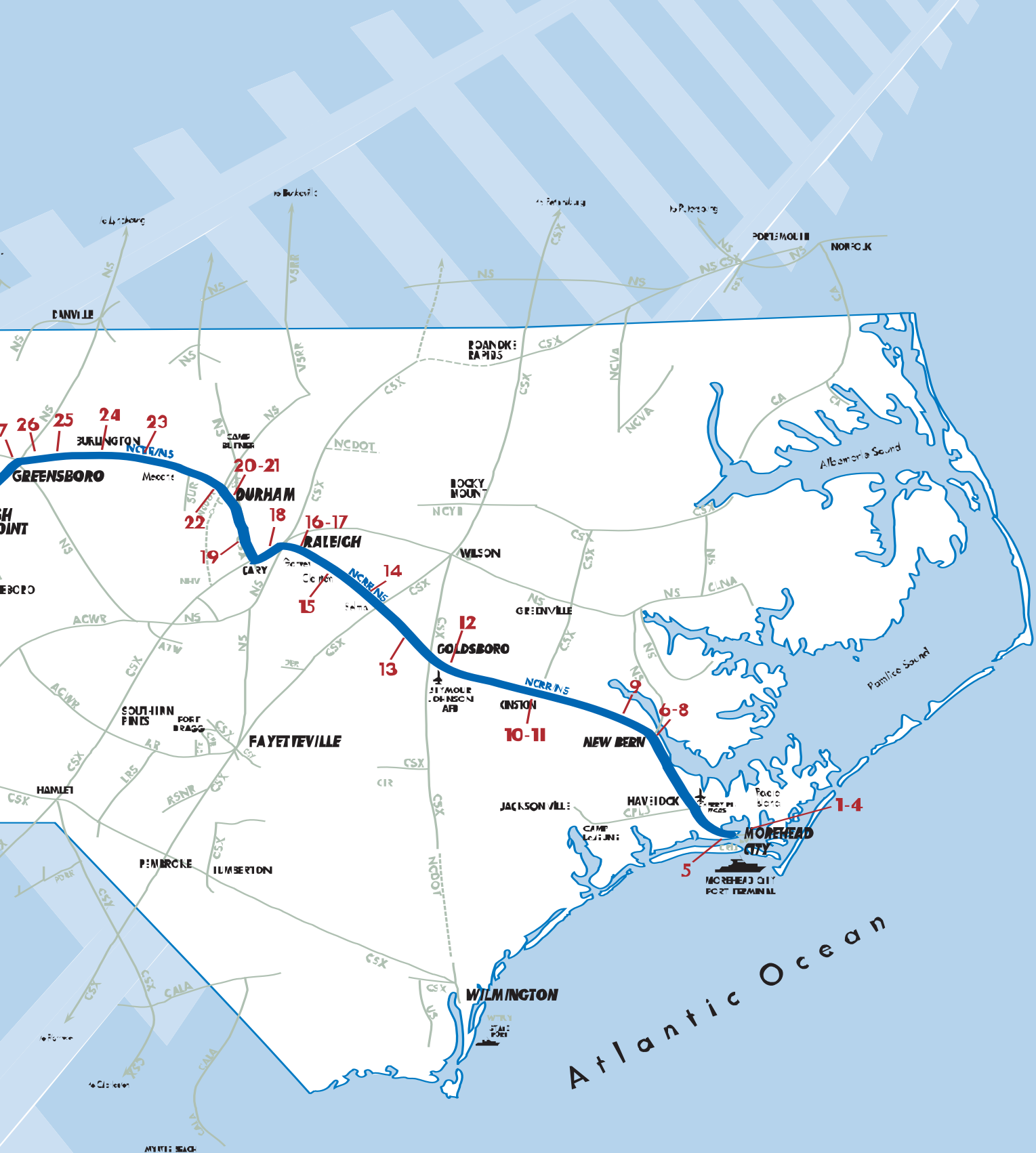
- |   |  |   |  |
|---|--|---|--|
|  | Passing Siding, Double Track and Centralized Traffic Control<br>Raleigh—Goldsboro        |  | Track Upgrades<br>Goldsboro to Morehead City<br>(Completed 2001) |
|  | Double Track and Curve Work<br>Greensboro—Charlotte                                      |  | Bridge Repairs<br>Kinston and<br>Research Triangle Park          |
|  | Curve Improvements and<br>Centralized Traffic Control<br>Cary—Greensboro                 |  | Upgrade Connections<br>Greensboro and Durham                     |
|  | Upgrades and Siding Extensions<br>McLeansville, Mebane,<br>Raleigh—Selma and West Durham |   |  |





# Selected Properties of the North Carolina Railroad Company





- 1-Morehead City-Yacht Basin
- 2-Morehead City 4th Street
- 3-Morehead City-Waterfront
- 4-Morehead City-Wye
- 5-Newport
- 6-New Bern-Downtown
- 7-New Bern-Station
- 8-New Bern-Waterfront

- 9-Clarks
- 10-Kinston-Former Station
- 11-Kinston-Triangle
- 12-Goldsboro
- 13-Rosewood Industrial
- 14-Selma
- 15-Clayton Industrial
- 16-Raleigh Depot

- 17-Raleigh-NCRR
- 18-Asbury
- 19-Morrisville
- 20-Durham-Former Station
- 21-Durham-Advance Auto
- 22-Hillsborough
- 23-Graham
- 24-Burlington

- 25-Gibsonville
- 26-McClellanville
- 27-Greensboro
- 28-High Point
- 29-Lexington
- 30-Harrisburg
- 31-Charlotte





FINANCIAL STATEMENT AND  
INDEPENDENT AUDITORS' REPORT

**NORTH CAROLINA RAILROAD COMPANY**

DECEMBER 31, 2002

North Carolina Railroad Company

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**Reznick Fedder & Silverman**

Certified Public Accountants • A Professional Corporation

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors  
North Carolina Railroad Company

We have audited the accompanying balance sheet of North Carolina Railroad Company as of December 31, 2002, and the related statements of operations, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Railroad Company as of December 31, 2002, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Reznick Fedder & Silverman*

Charlotte, North Carolina  
February 19, 2003

North Carolina Railroad Company

BALANCE SHEET

December 31, 2002

ASSETS

Current assets:

Cash and cash equivalents (see Notes C and F for descriptions of obligations requiring the use of cash)	\$ 2,414,921
Restricted cash	55,728
Accounts receivable	21,909
Prepaid expenses	40,375
Income taxes recoverable	<u>336,840</u>

Total current assets	<u>2,869,773</u>
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Property and equipment:

Roadway and land	7,848,742
Land	1,954,793
Buildings and improvements	2,835,878
Equipment and furniture	356,938
Construction in progress	<u>3,200,900</u>

	16,197,251
Accumulated depreciation	<u>(638,048)</u>

Net property and equipment	<u>15,559,203</u>
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Other assets

Funded capital projects	15,337,274
Deposits	<u>63,700</u>
	<u>15,400,974</u>

Total assets	<u><u>\$ 33,829,950</u></u>
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(Continued)



North Carolina Railroad Company  
BALANCE SHEET - CONTINUED

December 31, 2002

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued expenses	\$ 744,253
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Long-term liabilities:

Note payable	10,008,489
Security deposits	2,873

Total long-term liabilities	10,011,362
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Shareholders' equity:

Preferred stock, \$.01 par value, 105 shares issued and outstanding	1
Common stock, \$.50 par value, 10,000,000 shares authorized; 317 shares issued and outstanding	159
Additional paid-in-capital	72,952,718
Retained deficit	(49,878,543)

Total shareholders' equity	23,074,335
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Total liabilities and shareholders' equity	\$ 33,829,950
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See notes to financial statements

North Carolina Railroad Company

STATEMENT OF OPERATIONS

Year Ended December 31, 2002

Income:

Lease of roadway and land	\$ 11,447,016
Other lease income	1,324,466
Interest income	334,035
Dividend income	3,000
Other income	11,068
	<hr/>

Total income	<hr/> 13,119,585 <hr/>
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Expenses:

Salary and administrative	747,758
Professional fees	156,901
Contracted services	135,092
Reporting and public relations	90,720
Insurance	108,056
Franchise and property taxes	88,697
Depreciation	171,178
Repairs and maintenance	45,992
Utilities	32,529
General and administrative	264,489
	<hr/>

Total expenses	<hr/> 1,841,412 <hr/>
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Income before income taxes	11,278,173
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Income tax expense	<hr/> - <hr/>
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Net income	<hr/> <hr/> \$ 11,278,173 <hr/> <hr/>
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See notes to financial statements

North Carolina Railroad Company

STATEMENT OF SHAREHOLDERS' EQUITY

Year Ended December 31, 2002

	Preferred Stock	1	\$	Common Stock	159	\$	Additional Paid-In Capital	Retained Deficit	Shareholders' Equity
Balance as of December 31, 2001	\$	1	\$	159	\$	38,369,095	\$ (49,062,771)	\$ (10,693,516)	
Dividends (common-\$2,300 per share)	-	-	-	-	-	-	(729,100)	(729,100)	
Dividends (common-\$35,785 per share)	-	-	-	-	-	-	(11,343,845)	(11,343,845)	
Dividends (preferred-\$200 per share)	-	-	-	-	-	-	(21,000)	(21,000)	
Redemption of common shares	-	-	-	-	-	(24,750)	-	(24,750)	
Capital contribution related to conversion of note payable	-	-	-	-	-	20,899,810	-	20,899,810	
Capital contribution related to capital improvement projects	-	-	-	-	-	13,708,563	-	13,708,563	
Net income	-	-	-	-	-	-	11,278,173	11,278,173	
Balance as of December 31, 2002	\$	1	\$	159	\$	72,952,718	\$ (49,878,543)	\$ 23,074,335	

See notes to financial statements

North Carolina Railroad Company

STATEMENT OF CASH FLOWS

Year Ended December 31, 2002

Operating activities	
Net income	\$ 11,278,173
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	171,178
Changes in operating assets and liabilities:	
Interest receivable	178,688
Accounts receivable	25,507
Income taxes recoverable	(336,840)
Prepaid expenses	(14,117)
Deposits	(63,700)
Accounts payable and accrued expenses	432,493
Net cash provided by operating activities	<u>11,671,382</u>
Investing activities	
Purchases of property and equipment	(2,590,121)
Funded capital projects	(15,337,274)
Maturity of certificates of deposit	<u>11,500,000</u>
Net cash used by investing activities	<u>(6,427,395)</u>
Financing activities	
Payments of dividends	(20,920,809)
Additional paid in capital	13,708,563
Repurchase of common stock	<u>(24,750)</u>
Net cash used by financing activities	<u>(7,236,996)</u>
Decrease in cash, cash equivalents and restricted cash	(1,993,009)
Cash, cash equivalents and restricted cash at beginning of year	<u>4,463,658</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 2,470,649</u>

See notes to financial statements

North Carolina Railroad Company  
NOTES TO FINANCIAL STATEMENTS

December 31, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Organization

The North Carolina Railroad Company (the “Company” or “NCRR”), owns approximately 317 miles of continuous railroad line extending from Charlotte, North Carolina to Morehead City, North Carolina. The Company’s railroad facilities are operated by Norfolk Southern Railway Company (NSR). Pursuant to a Merger Agreement dated January 16, 1998, the Company merged with the Beaufort & Morehead Railroad Company (B&M), a company wholly owned by the State of North Carolina. The merger was effective April 1, 1998. Upon consummation of the merger, the State became sole owner of all of the common stock of the Company. In connection with the acquisition, the Company issued 105 shares of callable preferred stock which require an 8% annual dividend, payable semi-annually.

Property and Equipment

Buildings and equipment are reported at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Buildings are depreciated over twenty-five years, land improvements are depreciated over ten years, and furniture and equipment are depreciated over three to seven years. Values of the properties in the railway and land account approximate 1916 valuations by the Interstate Commerce Commission. These properties are not depreciated because they represent fully depreciated roadway or non-depreciable land. However, a rehabilitation project of \$200,000 was amortized over a five-year period in the 1940’s.

Revenue Recognition

Lease of Roadway and Land

Revenue is reflected in the statements of operations when earned in accordance with the Company’s lease arrangements on the accrual method.

Other Lease Income

The Company leases certain property that is not operated by NSR. Revenue is reflected in the statement of operations when earned. The Company also collects license fee revenue which is recognized when earned.



North Carolina Railroad Company

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company is a real estate investment trust ("REIT") for Federal income tax purposes. A corporate REIT is a legal entity that holds real estate interests, and through distributions to shareholders, is permitted to reduce or avoid the payment of federal and state income taxes at the corporate level. To maintain qualification as a REIT, the Company must distribute to shareholders at least 90% of REIT taxable income. The absence of a provision for current income taxes for 2002 on the statement of operations is the result of deductible distributions of 100% of taxable income. There can be no assurance that the Company can continue to qualify for REIT status; however, the Company believes it will continue to qualify as a REIT for 2003.

Cash and Cash Equivalents

Cash and cash equivalents include investments in commercial paper, U.S. Treasury Bills, and certificates of deposit with original maturities of three months or less. Cash deposits are placed with high credit quality financial institutions. At times, deposits exceed amounts insured by the Federal Deposit Insurance Corporation.

Restricted Cash

At December 31, 2002, \$55,728 of cash was reserved for payment to certain former common shareholders in connection with the 1998 merger. These amounts have been classified as Restricted Cash on the balance sheet.

Fair Value of Financial Instruments

The Company estimates that the fair value of all financial instruments approximates the carrying amounts. Because of the short-term maturity of cash equivalents, accounts receivable, accounts payable and accrued expenses, their carrying amounts approximate fair value.

North Carolina Railroad Company

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE B - TRACKAGE RIGHTS AGREEMENT AND LEASES ON ROADWAY AND LAND

Prior to 1999, substantially all of the Company's assets were leased to NSR or its predecessors, in two leases dating to 1895 and 1939. The terms of the leases did not require either the Company or Norfolk Southern to renew the leases.

On August 10, 1999, the Board of Directors of the Company approved a Trackage Rights Agreement ("TRA") with NSR effective January 1, 2000, terminating the leases. The agreement term is 15 years with two 15-year renewal options by NSR (45 years) for a base rental of \$11,000,000 (minimum) beginning January 1, 2000, with annual adjustments based upon an inflation index and a 4 ½% annual cap (arbitration of cap if it exceeds average of 4 ½% over any 7-year period). The TRA provides for transition of management of certain non-rail properties to the Company, maintenance of the Company's rail property, inspections, records sharing, and audit. The TRA was approved by the Surface Transportation Board ("STB") on September 1, 1999.

The TRA grants exclusive freight trackage rights to NSR to conduct all freight operations over the NCRR railroad line. Under federal law National Rail Passenger Corporation (Amtrak) operates over NSR operated lines under agreements with NSR. NSR is obligated under the TRA to provide rail service to all industries on the NCRR line and to dispatch rail operations on the NCRR line. NSR is obligated to maintain the NCRR line and any improvements made to the line by NSR for freight operations. Under the TRA, NSR does not have financial responsibility for passenger improvements made by the Company, DOT, Amtrak, or other parties.

North Carolina Railroad Company

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2002

NOTE B - TRACKAGE RIGHTS AGREEMENT AND LEASES ON ROADWAY AND LAND  
(Continued)

Approximately 40 parcels not used in railroad operations are being returned to the Company for separate (non-NSR) management. These non-right of way properties will be managed by the Company after transition from NSR management. Approximately 5,000 active and inactive right-of-way lease/license agreements have been transferred to the Company for administration or disposition. The TRA contains provisions for responsibility for environmental matters by NSR and the Company.

The TRA provides that NSR will cooperate in maintaining the Company's REIT tax status. NSR is responsible for any taxes on its freight operations. A Policy Planning Committee comprised of NCRR and NSR representatives addresses all future planning issues, capital improvements, and any disputes that arise under the TRA. In the event of any disagreements, NCRR and NSR are subject to binding arbitration under the TRA.

A lease of certain properties in Charlotte, North Carolina to Norfolk Southern (the "1968 Lease") expires on December 31, 2067, and provides for an annual rental of \$81,319 through December 2017. Beginning on January 1, 2018, 6% of the appraised value of the property will be the annual rental for the remaining term of the 1968 Lease. Under the terms of the 1968 Lease, all taxes connected with the property, except income taxes, are paid by the lessee. The 1968 lease was not affected by the TRA.

NOTE C - CAPITAL COMMITMENTS

Capital Improvement Agreement

On March 20, 2002, the Company entered into a capital improvement agreement (the "Capital Agreement") with NSR in order to establish an understanding between the parties about desired capital improvements as well as a means to fund individual projects pursuant to the TRA. The Capital Agreement calls for certain identified capital improvements to be made to the Company's railroad line (the "Projects"). As of December 31, 2002, the Projects total approximately \$49.7 million and are scheduled for completion between 2003 and 2005.

## North Carolina Railroad Company

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2002

#### NOTE C - CAPITAL COMMITMENTS (Continued)

The Capital Agreement calls for the execution of individual project agreements as appropriate and contains certain provisions with regard to construction responsibilities and cost allocation. The Capital Agreement provides for the funding of a capital program escrow account with an initial deposit of \$500,000 by the Company and additional deposits of obligated Company capital improvement funds held pursuant to N.C. General Statute 124-5.1 to fund capital improvements as recommended and approved by the Company's Board of Directors.

##### Capital Account Funds Agreement

On June 21, 2002, the Company and the North Carolina Department of Transportation (NCDOT) entered into a Capital Account Funds Agreement pursuant to N.C.G.S. 124-5.1. The agreement provides that the Company may request obligated NCRR REIT dividends to be expended for improvement of NCRR property as approved by the NCRR Board of Directors, and NCDOT is required to make a contribution to the capital of the Company on behalf of the State as shareholder in the amount requested by the Company. The funds are then restricted for use for approved capital improvement projects.

On December 5, 2002, the Board of Directors approved a resolution obligating capital funds for certain capital improvements, such as bridge replacement and rail upgrades. These projects are to be funded through the Capital Account Funds Agreement and total \$24.5 million. Capital improvements identified and approved through December 31, 2002 total approximately \$49.7 million and are scheduled for completion between 2003 and 2005.

##### Other Capital Improvements

Not included under the Capital Agreement or the Capital Account Funds Agreement are two redevelopment projects that are expected to cost approximately \$5.9 million upon completion. Costs incurred on these projects through December 31, 2002 of \$2,702,244 are included in construction in progress on the balance sheet.

North Carolina Railroad Company

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2002

NOTE C - CAPITAL COMMITMENTS (Continued)

The Company has designated the following amounts to capital improvement projects:

Restricted under Construction Contracts	\$ 8,049,677
Restricted under the Capital Account Funds Agreement	4,770,381
Restricted for other capital improvements	<u>2,517,216</u>
	<u>\$ 15,337,274</u>

NOTE D - NOTE PAYABLE

In connection with the Merger Agreement, the Company assumed a promissory note payable to the Treasurer of the State of North Carolina. The Company has classified the debt as long-term. The note provided that the term and schedule of the payment of principal and interest was to be established by the action of the General Assembly. The outstanding balance at December 31, 2002 is \$10,008,489.

In 2000, N.C. Session Law 2000-67 provided that (i) in order to increase the capital of the NCRR, any dividends received by the State shall be applied to reduce the obligation and shall be used by the Department of Transportation for the improvement of the property of NCRR as recommended and approved by the Board of Directors; (ii) effective January 1, 2000, interest shall not be accrued or otherwise charged on the remaining balance of the obligation; and (iii) interest accrued on the obligation relating to periods prior to January 1, 2000 shall be deemed paid and contributed by the State to the capital of the Company.

In accordance with the above legislation, the Company recorded a conversion of debt to contributed capital totaling \$20,899,810 during 2002.

NOTE E - EMPLOYEE BENEFIT PLAN

The Company sponsors a SEP-IRA Plan covering substantially all employees. Employer contributions for the year ended December 31, 2002 were \$75,805. The Company incurred no plan administrative expenses during 2002.



North Carolina Railroad Company

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2002

NOTE F - SUBSEQUENT EVENT

During 2002, the Company proposed a purchase agreement to buy land in Durham County. The estimated offer price is \$2,000,000, and NCRR made a deposit of \$45,000 for this land. The closing date is to be no later than April 15, 2003.

NOTE G - SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

Cash paid during the period for income taxes	<u>\$ 335,348</u>
Noncash investing and financing activities:	
Reduction of note payable in exchange for contribution to capital	<u>\$ 20,899,810</u>
Total cash as reported on the balance sheet:	
Cash and cash equivalents	\$ 2,414,921
Restricted cash	<u>55,728</u>
	<u>\$ 2,470,649</u>